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Subchapter 2A CSRS**Part 2A1 General Information****Section 2A1.1-1 Overview**

A. Introduction

This subchapter covers CSRS annuity cost-of-living adjustments (COLA's) based on increases in the Consumer Price Index (CPI).

B. Topics Covered

This subchapter covers:

- The definition of COLA's and terms related to COLA's;
 - The computation of COLA's;
 - The proration of the initial COLA; and
 - Additional information associated with COLA's.
-

C. Organization of Subchapter

The CSRS subchapter has five parts.

Part	Name of Part	Page
2A1	General Information	1
2A2	Computation	3
2A3	Proration	5
2A4	Survivor Annuities	7
2A5	Miscellaneous	8

NOTE: Subchapter 2B about COLA's for annuitants under FERS begins on page 9.

D. Statement of Authority

This subchapter is based on the laws and regulations cited below.

- United States Code: 5 U.S.C. 8340
 - Code of Federal Regulations: 5 CFR Part 831
-

Section 2A1.1-2 Definitions

A. Base Quarter	The calendar quarter ending September 30 for any given year.
B. Consumer Price Index (CPI)	The index published monthly by the Department of Labor that reflects changes in consumer prices for urban wage earners and clerical workers.
C. Base Quarter Price Index	The arithmetical mean of the CPI for the 3 months comprising a base quarter (currently, July, August, and September).
D. Cost-Of-Living Adjustment (COLA)	An increase in an annuity based on the increase in the CPI between two consecutive base quarters.
E. Effective Date	Cost-of-living adjustments are effective on December 1 of the year in which an annuitant becomes eligible. (Increases are first reflected in annuity checks payable in January following the effective date.)
F. Annuity Commencing Date	The date an annuity first begins to accrue.

Part 2A2 Computation**Section 2A2.1-1 Computation of COLA'S**

A. COLA Rate

The amount of a COLA is determined by the percent change in the base quarter price index from the previous year to the year in which the COLA is to become effective, adjusted to the nearest 1/10 of 1 percent.

EXAMPLE:

Year	Base Quarter Price Index
1988	177.8
1987	<u>113.3</u>
Difference	4.5

$$\frac{4.5}{113.3} \times 100 = 3.97$$

COLA rate = 4.0% (adjusted to the nearest 1/10
of 1%) effective December 1, 1988

B. COLA Increase

1. An individual's new gross monthly annuity, reflecting the COLA increase, is calculated by multiplying the old gross monthly annuity by the COLA factor (1 plus the COLA rate):

Gross monthly annuity x (1 + rate).

2. The gross monthly annuity is the annuity payable after adjustments have been made, when applicable, for all of the following:
 - Reduction of survivor benefits;
 - Reduction for alternative annuity;
 - Reduction for early retirement; and
 - Reduction for unpaid deposit service performed before October 1, 1982

Section 2A2.1-1 Computation of COLA'S (Cont.)**B. COLA Increase
(Cont.)**

EXAMPLE:

COLA = 4.0%

Gross monthly annuity before COLA	\$1,730.00
Multiply by COLA factor (1 + .04)	<u>x 1.04</u>
Gross monthly annuity after COLA (rounded to next lower dollar)	\$1,799.00

NOTE 1: The gross monthly annuity is always rounded to the next lower dollar. However, the gross monthly annuity after a COLA must reflect an increase of at least \$1.00.

NOTE 2: The COLA is applied before withholdings are made for tax and for health and life insurance premiums.

Part 2A3 Proration**Section 2A3.1-1 Proration of First COLA****A. General Rule**

The amount of an annuitant's first COLA is prorated. The proration is based on the number of months from the annuity commencement date to the effective date of the first COLA after the commencement date.

1. Retirees receive one-twelfth of the applicable cost-of-living increase for each month, not to exceed 12 months, that they are in receipt of an annuity before December 1.
2. To receive the full December 1 increase, a retiree's commencing date for retirement can be no later than December 31 of the previous year.

B. Procedure

From the chart below, determine the number of months on the annuity roll at the time of the COLA. Divide the COLA rate by 12, and multiply the answer by the number of months on the annuity roll. Round the answer to the nearest 1/10 of 1 percent. The result is the prorated COLA.

$$\frac{\text{COLA rate}}{12} \times \text{Number of months on annuity roll} = \text{Prorated COLA}$$

If Monthly Annuity Commences During --	Number of Months On Roll is --
December of previous year	12
January	11
February	10
March	9
April	8
May	7
June	6
July	5
August	4
September	3
October	2
November	1

Section 2A3.1-1 Proration of First COLA (Cont.)

B. Procedure (Cont.) EXAMPLE 1: If a retiree's commencing date is December 1, 1989, the retiree does not receive a COLA increase in the January 1990 check but does receive the full December 1990 COLA increase in the January 1991 annuity check.

EXAMPLE 2: COLA = 4.0%

Annuity commences August 1
Number of months on roll = 4

Gross monthly annuity BEFORE COLA = \$2,000

$$\frac{4}{12} \times 4 = 1.3\% \text{ Prorated COLA}$$

Gross monthly annuity AFTER COLA:
 $\$2,000 \times (1 + .013) = \$2,026$

IMPORTANT: The proration applies only to the annuitant's first COLA.

Part 2A4 Survivor Annuities**Section 2A4.1-1 Survivor Annuities**

A. Spouse, Former Spouse, Insurable Interest

An annuity payable to an annuitant's survivor normally commences on the day after death.

1. If the retiree received his or her first COLA, the survivor annuity is not subject to proration.
2. If the retiree had not received his or her first COLA, the survivor's first COLA is prorated based on the commencing date of the retiree's annuity.

Here are two examples that illustrate the rules listed above.

	If Employee Retires	Then Dies	Survivor COLA Is
EXAMPLE 1:	June 1	July 14	Subject to proration
EXAMPLE 2:	June 1	January 10	Not subject to proration with the next COLA increase. (Retiree received prorated increase effective December 1 following commencement of the annuity.)

NOTE: While the retiree is living, the potential survivor benefit receives the same COLA increases the annuitant receives.

B. Children

Children's annuities are increased by COLA's effective December 1 and are payable in the January annuity check. However, unlike other annuitants' COLA's, children's COLA's are not subject to proration.

The COLA is based on the annuity payable before any deductions are made (for example, health benefits).

Part 2A5 Miscellaneous**Section 2A5.1-1 Miscellaneous Provisions**

A. Voluntary Contributions	The law does not provide for COLA's for additional annuities purchased at retirement by voluntary contributions.
B. Reemployed Annuitants	A reemployed annuitant's pay is offset by the amount of the annuity (see Chapter 100, Reemployed Annuitants). When a COLA is applied to the annuity, the employing office must make an additional salary offset. The agency determines the new monthly rate to be used for reducing the salary by adding the COLA (full or prorated, as appropriate) to the previous rate. The additional offset in pay is effective from December 1 of such year.
C. COLA Cap	<p>An annuity may not be increased by a COLA to an amount that exceeds the greater of:</p> <ul style="list-style-type: none">• The current payable rate for GS-15, step 10; or• An amount equal to an individual's final pay (or average pay, if higher) increased by all cumulative average GS pay increases from the commencing date of the annuity to the effective date of the COLA. <p>The cumulative GS increases are used in all cases, even though the individual may have been employed under a different pay system.</p> <p>This cap applies to any COLA increases to an annuity. In no instance is an annuity that exceeds the cap reduced.</p>

Subchapter 2B FERS
Part 2B1 General Information

Section 2B1.1-1 Overview

A. Introduction

This subchapter covers FERS annuity cost-of-living adjustments (COLA's) based on increases in the Consumer Price Index (CPI).

This subchapter explains how FERS differs from CSRS. It refers readers to the CSRS rule that applies or gives the FERS rule if it is different.

Subchapter 2B also provides information regarding the determination of COLA's for transfer employees with a CSRS component.

B. Organization of Subchapter

This FERS subchapter has six parts.

Part	Name of Part	Page
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2B2	Computation	10
2B3	Proration	13
2B4	Transfer Employees With a CSRS Component	14
2B5	Survivor Annuities and Death Benefit	15
2B6	Miscellaneous	17

C. Applicable CSRS Provision

The following section of subchapter 2A applies to FERS employees:

- Section 2A1.1-2: Definitions
-

D. Statement of Authority

This subchapter is based on the law cited below.

- United States Code: 5 U.S.C. 8462
-

Part 2B2 Computation**Section 2B2.1-1 Computation of COLA'S**

A. Eligibility

FERS COLA's do not apply to annuitants who are under age 62 as of December 1, except:

1. Disability annuitants, including military reserve technicians who are medically disqualified for military service or the rank required to hold their positions. However, disability annuitants who are receiving 60 percent of their average salary do not receive COLA's.
2. Military reserve technicians whose separation from technician service resulted from loss of military membership or rank on account of disability after attaining age 50 and completing 25 years of service.
3. Employees who retired under the special provisions for law enforcement officers, firefighters, or air traffic controllers.
4. Spouse, former spouse, and insurable interest survivor annuitants.

NOTE 1: Under FERS, children's annuities are increased under CSRS provisions rather than FERS provisions.

NOTE 2: Under CSRS rules, retirees may receive a COLA at any age.

Section 2B2.1-1 Computation of COLA'S (Cont.)

B. COLA Rate

As under CSRS, the amount of a COLA is determined by the percent change in the base quarter price index from the previous year to the year in which the COLA is to become effective adjusted to the nearest 1/10 of 1 percent.

Generally, FERS COLA's are 1 percent less than the increase in the CPI as determined under the law. However, if the CPI increase is between 2 and 3 percent the FERS COLA is 2 percent. If the actual increase is 2 percent or less, the FERS COLA matches the CPI increase.

The following table summarizes the above information.

If the Increase in CPI Is	Then the Annual FERS COLA Is
Up to 2.0%	Same as CPI
2.0% to 3.0%	2.0%
Above 3.0%	CPI increase minus 1.0%

EXAMPLE:

Year	Base Quarter Price Index
1988	117.8
1987	<u>113.3</u>
Difference	4.5

$$\frac{4.5}{113.3} \times 100 = 3.97\% \text{ (CPI increase)}$$

$$3.97\% - 1.00\% = 2.97\%$$

COLA Rate = 3.0% (adjusted to the nearest 1/10 of 1%) effective
December 1, 1988

Section 2B2.1-1 Computation of COLA'S (Cont.)**C. COLA Increase**

The CSRS rules in section 2A2.1-1 on how to determine the COLA increase generally apply under FERS; however, the gross monthly annuity used in the FERS COLA computation is defined a little differently. The FERS gross monthly annuity is the annuity payable after the following adjustments (when applicable) have been made:

- Reduction for survivor benefits;
- Reduction for alternative annuity;
- Reduction for early retirement under MRA + 10 and early deferred provisions.

NOTE 1: The CSRS reduction for pre-October 1, 1982, deposit service does not apply to FERS annuities that do not have a CSRS component.

NOTE 2: See section 2B6.1-1, paragraph A for the rules covering disability retirees.

**D. Disability
Annuitants**

When a disability annuity increases because of a COLA, the reduction (if any) for the Social Security benefit also increases. (See Chapter 60, Disability Retirement.)

Part 2B3 Proration

Section 2B3.1-1 Proration of First COLA

A. General Rule

The rules in section 2A3.1-1 on proration of the first COLA for CSRS apply under FERS.

For FERS annuitants who are not eligible to receive a COLA during their first year (or more) on the annuity roll, the initial COLA they receive (after becoming eligible) is the full COLA without proration. The annuitants who fall in this category are:

- Annuitants under age 62 whose annuity commences at least 1 year prior to reaching age 62;
- Disability annuitants whose annuity benefits are based on 60 percent of average pay.

EXAMPLE 1: Bill retired at age 59. He will become 62 in July 1990. In January 1991, he will receive an unprorated COLA.

EXAMPLE 2: Jane is a disability retiree. From July 1, 1988, to June 30, 1989, she received 60 percent of her high-3. On July 1, 1989 she began receiving 40 percent of her high-3. In January 1990, she will receive an unprorated COLA.

Part 2B4 Transfer Employees With a CSRS Component**Section 2B4.1-1 Transfer Employees With a CSRS Component**

**A. Transfer
Employees With a
CSRS Component**

Certain FERS annuitants are entitled to a CSRS annuity computation for a portion of their annuity. The CSRS portion of the annuity is subject to CSRS COLA rules, rather than FERS COLA rules.

CSRS COLA rules do not require the annuitant to be age 62. Therefore, the CSRS portion of the annuity may increase even though no FERS increase is payable.

Part 2B5 Survivor Annuities and Death Benefit

Section 2B5.1-1 Survivor Annuities

**A. Spouse, Former
Spouse, Insurable
Interest**

1. An annuity payable to a FERS retiree's survivor normally commences on the day after death.
2. FERS survivor annuities are increased by COLA's after they commence even though the survivor annuitant is not yet age 62. The proration rules in Part 2B2 apply to the first COLA paid to the survivor of a retiree who dies before having been retired for a year or to the survivor of an employee who died in service.

EXAMPLE 1: Retiree is age 59 when he retires in June 1989. He dies at age 61 in June 1991. The retiree had not received a COLA because he had not reached age 62. In December 1991, the survivor annuity receives a full COLA because the retiree's annuity had begun more than a year earlier.

EXAMPLE 2: Same as Example 1 except that retiree dies in November 1989. In December 1989, the survivor annuity (which commenced in November) receives a prorated COLA based on the fact that the deceased retiree's annuity commenced in June. (Half of the regular COLA would be payable because 6 months had passed.)

3. When a retiree dies, the potential survivor benefit calculated at retirement is increased by the total percent that the retiree's annuity had increased since retirement. If the retiree had received no COLA increases because he or she was under age 62, there is no increase in the survivor benefit. On the effective date of the next COLA, the survivor annuity increase is determined based on the length of time that has passed since the annuity was first payable to the deceased retiree. If at least one year has passed since the deceased retiree's annuity commenced, the survivor annuity is increased by a full COLA. If less than one year has passed, the COLA is prorated based on the retiree's annuity commencing date.
4. FERS survivor annuities do not have CSRS components. The entire survivor annuity is subject to FERS COLA rules, even if it is based on a basic employee annuity that includes a CSRS component.

B. Children

Cost-of-living adjustments for children's annuities under FERS are determined under CSRS rules. (See section 2A4.1-1.)

Section 2B5.1-2 Death Benefit

- | | |
|----------------------------------|--|
| A. Lump-Sum Death Benefit | The FERS basic employee death benefit (see Chapter 70, Spouse Benefits - Death of an Employee) is an amount equal to 50 percent of the employee's final pay (or average pay, if higher) plus \$15,000 adjusted for COLA's under CSRS rules. See subchapter 2C for lump-sum benefit amounts for each COLA increase. |
|----------------------------------|--|
-

Part 2B6 Miscellaneous

Section 2B6.1-1 Miscellaneous COLA Provisions

**A. Disability
Annuitants**

1. COLA's are not payable on disability annuities during the annuitant's first year on the annuity roll if the annuity rate is based on 60 percent of his or her average salary. If an annuitant is removed from the roll for recovery or restoration to earning capacity, he or she is restored at the 60 percent rate for a year and not eligible for COLA's for that year.
2. COLA's are payable during the first year if:
 - The annuitant's rate is based on an earned benefit; or
 - The annuity is recomputed because the annuitant has reached age 62.

NOTE: The Social Security offset also does not increase by COLA's during the first year.

3. After the first year, both the disability annuity and the Social Security offset increase under the FERS COLA rules.
4. Even though the disability annuity may include 5 or more years of creditable CSRS service, the disability annuity is increased totally under FERS COLA rules, unless:
 - The annuitant's rate is based on an earned benefit that includes a CSRS component; or
 - The annuity is recomputed because the annuitant has reached age 62 and includes a CSRS component.

**B. Reemployed
Annuitants**

The CSRS rule in section 2A5.1-1 for reemployed annuitants applies under FERS.

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Subchapter 2C Job Aids

Section 2C1.1-1 Copies of Job Aids

TABLE OF CSRS COLA's FOR FEDERAL RETIREES

	Effective Date	Year	Amount of Increase
>	March 1	1996	2.6% <
	March 1	1995	2.8%
	March 1	1994	2.6%
	December 1	1992	3.0%
	December 1	1991	3.7%
	December 1	1990	5.4%
	December 1	1989	4.7%
	December 1	1988	4.0%
	December 1	1987	4.2%
	December 1	1986	1.3%
	December 1	1985	No Increase
	December 1	1984	3.5%
	April 1	1983	3.9% *
	March 1	1982	8.7%
	March 1	1981	4.4%
	September 1	1980	7.7%
	March 1	1980	6.0%
	September 1	1979	6.9%
	March 1	1979	3.9%
	September 1	1978	4.9%
	March 1	1978	2.4%
	September 1	1977	4.3%
	March 1	1977	4.8%
	March 1	1976	5.4%
	August 1	1975	5.1%
	January 1	1975	7.3%
	July 1	1974	6.3%
	January 1	1974	5.5%
	July 1	1973	6.1%
	July 1	1972	4.8%
	June 1	1971	4.5%
	August 1	1970	5.6%
	November 1	1969	5.0%
	March 1	1969	3.9%
	May 1	1968	3.9%
	January 1	1967	3.9%

*3.3% for non-disabled employee annuitants under age 62

Section 2C1.1-1 Copies of Job Aids (Cont.)**TABLE OF FERS COLA'S FOR FEDERAL RETIREES**

	Effective Date	Year	Amount of Increase
>	March 1	1996	2.0% <
	March 1	1995	2.0%
	March 1	1994	2.0%
	December 1	1992	2.0%
	December 1	1991	2.7%
	December 1	1990	4.4%
	December 1	1989	3.7%
	December 1	1988	3.0%
	December 1	1987	3.2%

Section 2C1.1-1 Copies of Job Aids (Cont.)

**TABLE OF COLA ADJUSTMENTS TO \$15,000 PORTION OF
FERS BASIC EMPLOYEE DEATH BENEFIT**

The law provides that the FERS Basic Employee Death Benefit is an amount equal to 50 percent of the employee's final annual pay (or average pay, if higher), plus \$15,000, adjusted for COLA's under CSRS rules.

	Effective Date	Year	CSRS COLA	Basic Benefit Amount	
>	March 1	1996	2.6%	\$20,734.01	<
	March 1	1995	2.8%	\$20,208.59	
	March 1	1994	2.6	\$19,658.16	
	December 1	1992	3.0	\$19,160.00	
	December 1	1991	3.7	\$18,601.94	
	December 1	1990	5.4%	\$17,938.23	
	December 1	1989	4.7%	\$17,019.19	
	December 1	1988	4.0%	\$16,255.20	
	December 1	1987	4.2%	\$15,630.00	
	January 1	1987	N/A	\$15,000.00	

NOTE 1: Recipients of this death benefit are entitled to a COLA if the employee died on or after the effective date of that COLA.

> NOTE 2: The COLA effective March 1996 for retirees is effective for death benefit recipients in any case in which the employee dies on or after March 1, 1996, and before March 1, 1997. <